**EXTERNAL ENVIRONMENT AND PERFORMANCE OF MICROFINANCE: A WAY FORWARD**

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# **ABSTRACT**

Microfinance institutions are moving towards commercialization in an effort to become sustainable and profit oriented. There are certain underlying external factors contributing towards the social and financial performance of MFIs which are related to (macroeconomic environment, business environment and financial development). This study provides empirical evidence on the impact of various external factors on the performance of microfinance by controlling certain variables. A balanced panel data set for a sample of 537 worldwide MFIs from the year 2008-2013 has been generated from the website of MIX market and World Bank. By using a random effect model, our finding suggests that business environment, financial development and macroeconomic environment have a role in driving the performance of microfinance.

*Key words: Micro-finance institutions, Performance of MFIs, Business Environment, Financial Development, Macroeconomic Environment, Random effect model*